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AN UNEMPLOYMENT RESERVE FUND

BY WILLIAM McCLELLAN

“FOR Satan finds some mischief still for idle hands to do”—and for idle minds to think. This is the grave menace of unemployment. In the long run, the disturbances to industrial peace which follow unemployment are much more serious than the financial loss due to stopping production, expensive as this may be. When men are busy earning an income to which they are accustomed, their minds are calm and changes in industrial relations are quite likely to be brought about without violence. In addition, the possibility of unemployment ever hovering over the workers is also a constantly disturbing factor in all efforts for industrial stability. Under present industrial conditions the working man cannot think without considering this menace. He never knows when a long continued period of employment under reasonably satisfactory conditions will be interrupted suddenly by a panic of some sort. Suddenly a shut-down of the factory or mill occurs, because orders have stopped coming in and the product of the workmen’s hands is apparently not needed for a time. Naturally he wonders why, and begins to blame someone. He knows that the employing class at the same time has ceased to make money, which forces him to conclude that bad management by somebody is the cause. As recent movements in the labor world prove, he is quite likely to wonder if he could not manage better himself if given the opportunity.

The working class has some right to expect that the managing

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class will prevent unemployment, especially as it would be to the latter's own advantage. The workman cannot provide himself with continuous employment. He is an employe, and of necessity looks to an employer for employment. Not long ago I heard the chief executive of one of the largest manufacturing businesses in the country say that his workmen had a perfect right to expect him to keep them busy all the time. This was his business, and if unemployment came it was his fault, or the fault of his class. The man was not a rabid Socialist, but is accepted by capitalists and conservative business men of the country as one of their own. Unquestionably, his state of mind must become more general if unemployment troubles are to disappear or even lessen in severity.

Conferences such as the recent one held at Washington are futile for immediate needs. Not a single remedy proposed is actually available for any real results. Every quick-acting remedy assumes tacitly that the industrial world has merely stumbled, or has temporarily lost its way. Work is always waiting somewhere else, or can be made to order. Employers could do something if they could only see what; which perhaps a conference can discover. But few employers are ignorantly stopping their production when it might just as well proceed. The only municipal work which can, or should, go ahead is that which has been carefully planned, financed, and is ready to go ahead at the time. To put all employes on half time instead of working half on full time is not practical, as a rule. Usually, when the working force is reduced, the younger and less attached, with smaller responsibilities, go first. To put the married and single, the old and the young, all on half time, would be to spread the disaffection deeper and broader and make the whole situation worse. To recommend a general system of employment agencies as a cure-all is not to know the conditions of the unemployed, physically or mentally. The unemployed is not a homogeneous class, which just wants work. Not to understand the several types of unemployed is to misunderstand the problem entirely.

Surveys of various sorts which have been made show that there are three distinct mental types among the unemployed. There is the skilled mechanic or trained laborer. He has a family in a home which perhaps he owns. His children are at school and the

family have their local social ties. Such a workman perhaps has "worked up" to a more or less special position in the "works". Tell him that he can get a job fifteen hundred miles away and he is not interested. Tell him that he can work as an ordinary laborer at strange labor on the new city bridge, and he does not follow you. This man can only wait where he is until conditions change. He is the "attached worker".

Next there is the "unattached workman", either skilled or unskilled. He does not mind moving, but rather likes it. He never stays in any job very long. He does not care much just what he works at, if it is attractive when offered. To such a one, a system of employment agencies may be useful and may help him to work. When unemployment is general and widespread locally and industrially, however, the employment agencies are of relatively little use, even to the unattached worker.

Finally, there is the man whose earning power has been given a false rating by war or other conditions. He has lost his job which paid him high wages, and he will take no job which pays less. Such a one must be disillusioned, or rather he must disillusion himself in course of time. No outside agency can reason with him or help him. He is the "unbalanced worker". Perhaps it would be nearer the truth to consider "unbalanced workers" as a sub-class of the "attached" and "unattached" workers jointly. They are numerous, and I believe largely of the "attached" class, and principally in the unskilled or slightly skilled portion.

The hurriedly called conference stage in our present difficulty is what we have been accustomed to in the financial panics of the past. All of a sudden industry stopped, failures commenced, and the whole business world seemed tottering. J. P. Morgan in his day, or some other accepted leader, called a conference on financial emergency measures, just as the President did recently for unemployment. Schemes of all sorts were discussed and some help given here and there, but time was the only restorer. Gradually the people got over their scare and went back to business, somewhat subdued in spirit and with new resolutions to be circumspect in the future.

After a number of such experiences, it dawned on the minds

of many that machinery ought to be devised to prevent such "financial" panics. The Federal Reserve System was designed and put into operation, and financial panics are gone, apparently forever. But while money is readily available now wherever it is needed, in a certain sense there is as much unemployment of it as of labor. This fact powerfully illuminates our problem. Even if we could invent a Federal Employment Reserve System we should not be free from unemployment at times. All the more reason, therefore, to have such a system for both normal and abnormal times. Can a Federal Employment Reserve System be designed?

The first difficulty we face is the concreteness of labor. There can be no transfer of labor credits from Pittsburg to Des Moines, as in finance. It is as if the gold itself had always to travel where it was needed. Even this would not be as impracticable for gold as it is for labor. For, generally speaking, labor is immobile. The only labor that can be moved back and forth like gold is military labor.

It has been shown that at best only the unattached worker is at all mobile, and there are varying degrees of attachment. Nevertheless there is a respectable volume of unattached labor which is mobile and would be specie for a Federal Employment Reserve System. Such a system obviously must consist of well organized employment agencies, established at the proper centres and efficiently related to each other so as to mobilize the "unattached" labor reserve.

The Labor Unions of the country, if they were wise, would organize such a reserve system at once for all labor, skilled and unskilled. To a certain extent the best organized unions provide such a service in their own crafts. They would make the reserve self-supporting and would accept or permit only supervision and regulation by the Government, under a law generally similar to the Federal Reserve Law. I say this because I firmly believe that no Anglo-Saxon government can successfully be paternal. It is contrary to its genius. I say it also because just as the Federal Reserve Bank was almost the first unselfish act of capitalism, even though for its own protection, so the establishment of a Federal Employment Reserve by the representative organizations of labor

would be a constructive act toward industrial peace irrespective of any selfish motive.

It would be a happy solution if some means could be found to banish these periodic spells of widespread unemployment. Consumption would have to march in almost even step with production. This indeed seems impossible under our present industrial system. Such gigantic changes cannot be hoped for in a short time. Large bodies move slowly in the commercial and industrial world as in the physical world. The industrial world is a huge, headless, quivering mass, totally unorganized, its members subject to varying forces causing at times severe dislocations. Certainly management may be expected to consider the banishment of unemployment as its ultimate goal, but progress in this direction is bound to be slow. Perhaps means are at hand to accelerate the process, but at best the end is still very far off. For many years to come the periodic spells of unemployment, for one reason or another, will descend on the industrial community, and the question is, how they shall be overcome quickly, and meanwhile the suffering be reduced to a minimum.

Preparedness becomes a major virtue when emergency measures are relatively insufficient or ineffective. Moreover there is usually some unemployment ailment, in a more or less acute form, in our industrial organization. Any machinery devised for a widespread emergency would find some use most of the time. The Federal Employment System could make sure that every open job was filled as long as there was an unattached worker, but could do nothing to take care of the great residuum of unemployed when production had been greatly curtailed or interrupted. Assuming that an excellent employment system is in operation, what shall be devised to relieve the minds and bodies of the still unemployed?

Before taking up the question, it is desirable to recognize clearly certain changes which seem to be going on in the general industrial organization. The changes are important because they fix responsibility more definitely and thereby give rise to hope for more rapid progress. In the past there has been no distinct managing class. In academic discussion there have been constant references to *entrepreneurs*, but in practice they have not existed

independent of capital's power and influence. In recent years a new conception has arisen. A class of professional managers has been growing up which operates to put both capital and labor to work in industry so that the greatest efficiency of production and distribution may be expected. Such a manager holds his position and makes his decisions by reason of his professional authority. He stands between capital and labor, with the purpose of balancing the beam. His desire is to keep both the capital and labor in his enterprise working constantly. To such a mind, capital does not employ labor any more than labor employs capital. He employs them both, and he must keep both happy. How will he do it during these spells of widespread unemployment?

Capital itself while in control of management has taken care of itself by a very excellent scheme. It is known in accounting circles as "surplus" and "reserves". It is considered bad business to pay out all capital earnings in dividends or interest. Reserves should be created and a surplus accumulated for various contingencies, especially for the time, always expected, when production will fall off and dividends not be earned. Here and there will be found an enterprise which does not, or cannot, afford reserves or a surplus. As soon as capital finds this out it is less willing to work for such a concern. Putting capital to work is commonly called investment, but this is a mere term, for the more opportunity there is for capital to work in an enterprise, the more willing its owner is to invest it in that enterprise. More than this, the more reason capital has to expect constant or increasing earnings irrespective of good and bad times, the more willing it is to work.

Is not this just as reasonable a position for labor to take? In fact, should not capital and management want labor in this very position, even though for their own well being? It is but a step farther to ask if a financial reserve for labor is not as reasonable as one for capital. No suggestion is made that capital should decrease its earnings, or make any contribution to provide for labor. If done at all it must be taken out of labor's share at the time. Moreover the creation of such a reserve for labor has nothing to do with any struggle labor may be making for a larger share of the returns of business. Irrespective of what wages or salaries may

be paid, labor, just as capital, must refrain from taking all to which it has title at the time, in order to build up a reserve and surplus for the rainy day.

Other plans—for example, unemployment insurance and government unemployment funds—have been suggested and tried to some extent. In essence they may be quite equivalent to an unemployment reserve maintained by industry. In all these plans the funds would be accumulated directly or indirectly by the workers not receiving at the time all the earnings to which they had title. There are marked differences, however, on the moral side.

In unemployment insurance the workmen would seem to be paying the bill instead of the business doing it. If the business takes out a general insurance policy for the purpose, the scheme partakes of the character of semi-charity. Moreover it is not strictly insurance if all the risks are to come due at one time as in times of general unemployment.

A State unemployment fund is objectionable on several accounts. Payments from the fund are likely to seem like pensions. The State could not justly add anything to the fund except by taxation of business or of the workers themselves. The State would then be merely stake-holder and distributor. Such a burden should not be added to the State's already heavy and complex responsibilities unless there should be no other satisfactory plan. Moreover even the most decentralized administration of such a fund, would be an almost impossible task for the genius of an Anglo-Saxon government. Most important is the consideration that business ought to make any such vital factor a part of its own organism. The very notion of business is gain, and proper reward, under acceptable conditions, for every part of the enterprise. There can never be permanent industrial and business stability until the team of capital and labor are driven and cared for impartially by management.

The immense advantage of an "unemployment reserve" accumulated by each business organization is that it does enable management to hold exactly the same relation in this field to capital and to labor. Each particular management asserts its desire to have capital and labor flow to its organization in adequate

amounts, and takes the same measures to insure both a constant return. This discussion has no interest in how the total earnings shall be divided between capital and labor. The plan and the necessity for it are independent of the relative heights of dividends and wages. It has no interest whatever in where the ownerships or direction of the enterprise are vested. The business simply pays both capital and labor not only what is taken out as it is earned but also what is reserved for future hard times. The reserves for capital and labor would be separate of course, since they are the result of self-denial by different groups. To be effective in the largest sense this distinction would have to be clear and prominent. The unemployment reserve should never be misunderstood as a contribution by capital. It should not be a reserve out of surplus. It should be transferred from the annual income account to the balance sheet by the side of the annual profit and loss. It should be charged monthly by the side of the payroll and preferably be a percentage of the payroll so as to be included in the total labor account.

Difficulties, some imaginary and many real, loom up in the presentation of such a scheme. One company cannot start such a reserve without placing itself at a disadvantage in competition. The reply might very well be that only a most progressive, ably-managed company, considerably ahead in competition, would decide to start such a reserve. It could easily afford to take advantage of its position to become stronger still. Few would have the hardihood to deny that the introduction of such a plan would have some favorable effect on the psychology of the workers, resulting in some improvement in quantity and quality of production. The turnover in employees which is so expensive would certainly be reduced. Then someone will say that employees are changing and those who created the fund might not be there to share it when unemployment comes. The answer is quite easy. The employee would not change unless for his own advantage and with a full knowledge of the fund and his relation to it. Is he in any different position from that of the stockholder who sells his stock? You may say that the price received for the stock is influenced by the presence or absence of a large reserve, but in exactly the same way the worker's decision to drop his present job

and take another is influenced by the presence or absence of a large reserve where he is leaving or where he is going.

Someone will say that an unemployment reserve fund would induce loafing. It is not difficult to find some safeguards here. Ordinary, average, human honesty must be assumed on the part of management, capital, and labor. Then, those who are at work are going to be very observant and critical as to who gets money from "their" fund. Of course there will be established rules and principles for both the accumulation and distribution of the funds. The status of an employe who is entitled to share in the fund will have to be fixed just as the status of a stockholder entitled to dividends must be definite. And so the process of objection-raising might go on *ad libitum*. The interesting fact is that the scheme is already in operation in England and seems to be working. Schemes not different in principle though different in application have worked in America.

One might hear that the unions would oppose such a scheme, and I fear some of them might; at least some of their present leaders. And then if they accepted it, their demands to share in management might be reënforced. The practical fact is that neither labor nor capital is establishing this reserve fund, but that management is doing so. Any opposition of unions can hardly prevent it. If it increases the struggle of management to rid itself of any control of both capital or labor, so much the better. The end of the struggle will be brought nearer.

The relations of union, labor, capital, and management are far too complex and extensive to be discussed here, but it is certain that these relations must be improved by a scheme which induces peace of mind and at the same time strengthens the thinkers.

A parting word to the friend who insists that general unemployment ought to be made impossible. He must be reminded that the industrial organization is a very complex machine, with many delicate parts, many of which are human. The selfish interests of these human parts are frequently opposed. Every mechanical device, even though it be the invention of the best minds, breaks down sooner or later. How then can more be expected of the industrial machine operating in the world-wide fields of production,

distribution, and consumption? General unemployment is merely an indication of breakdown. The breakdown must be repaired and this takes time, no matter how expert the repair-men. Often when the repairs are finished the machine is better than before, and less likely to break down so soon again. When the machine is perfect, and so perfectly handled that it cannot break down; the whole world will be one hundred per cent perfect, and there will be nothing to worry about forever. Such a place has been called Heaven. While waiting for that time and place, the thing to be realized is that there is no need for suffering and disaster while the repairs to the machine are being made.

WILLIAM McCLELLAN.